



# FACT SHEET

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## ***U.S.-Korea Free Trade Agreement***

### **What's At Stake for Soybeans and Related Products?**

September 2008

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The U.S.-Korea Free Trade Agreement (KORUS FTA) will provide America's farmers, ranchers, food processors, and the businesses they support with improved access to the Republic of Korea's 49 million consumers. If approved by Congress, this would be the most economically significant trade agreement for the U.S. agricultural sector in 15 years.

Under this agreement, more than 60 percent of U.S. agricultural exports will become duty free immediately. Lower tariffs benefit both U.S. suppliers and Korea's consumers. The KORUS FTA will help the United States compete against Korea's other major agriculture suppliers and help keep the United States on a level playing field with Korea's current free trade partners, such as Chile, and any future FTA partners.

#### **Soybeans**

##### *With the Agreement...*

The greatest potential benefit for the soybean sector is likely to come from improved access to Korea's market for food-quality soybeans. Korea will establish a zero tariff-rate quota (TRQ) for identity preserved (IP) soybeans for food use (the production of soybean curd). This quota will operate outside the current state trading entity (STE), which has charged a reported markup of \$250 per metric ton on soybean imports supplied to soybean curd processors. (For comparison, Korea's average 2007 import price for soybeans used for food was \$330 per ton. This markup brings the price for imported quality beans to \$580.) The TRQ will be operated by an association of food-grade soybean processors and give U.S. suppliers direct market access to Korean soybean processors.

This TRQ will be 10,000 tons in the first year of the agreement, increasing to 20,000 tons in year 2 and 25,000 tons in year 3. For years 4 and beyond, the TRQ grows 3 percent annually in perpetuity. Assuming continued markup of \$250 per ton on soybean imports, savings from the elimination of this cost alone will be \$2.5 million on the initial 10,000-ton TRQ volume in the first year of the agreement.

Korean tariffs on soybeans for crushing will decline from the current 1-percent autonomous tariff to zero upon implementation of the agreement. (Korea annually announces a number of voluntary (autonomous) quotas, which effectively reduce tariffs for needed inputs below the

established WTO tariff rate. Korea's global WTO quota for soybeans for crushing provides access for 846,365 tons at a 5-percent tariff.)

#### *The Trade Situation...*

While Korea's imports of soybeans for all uses rose slightly in 2007, they remain low compared to years prior to 2006. In addition to a reduced overall market size, recent market gains by Brazil have displaced the United States as Korea's dominant supplier. Korea was the 9th largest market for U.S. soybeans in 2007, down from our number 5 market a decade earlier. From 2005 to 2007, U.S. suppliers shipped an annual average of 605,000 tons of soybeans annually to Korea valued at \$186 million. The United States' 42-percent share of the Korean import market in 2007 is partly the result of Korea's demand for soybeans for food use that are free of genetically modified organisms (GMO) and interest in GMO-free soybeans in general. Both Brazil and, to a lesser extent, China have taken advantage of the GMO-free Korean interest and opportunity for food-use beans, which account for about 25 percent of the total soybean market.

#### *The Current Market Access Situation...*

U.S. soybean exports for food use in Korea presently have access under an 185,787-ton global WTO TRQ with an applied tariff of 5 percent. In order to meet domestic demand for processing inputs, Korea has allowed imports above the WTO mandated volume to enter at the WTO TRQ tariff rate rather than the out-of-quota rate of 487 percent. U.S. soybean exports for crushing (oil and oil cake production) have access under an 846,365-ton global WTO TRQ that also carries an applied tariff of 5 percent. However, for soybeans for crushing, Korea imports under an annually announced autonomous quota that for 2006 offered crushers 1,414,000 tons of soybeans at only a 1-percent tariff. Korea's WTO bound tariff rate for all soybeans is 487 percent.

### **Soybean Oil and Meal**

#### *With the Agreement...*

Korea's tariff on imports of crude soybean oil (the majority of Korea's soybean oil imports) will be phased out from the current 5.4 percent in 10 equal annual reductions. The tariff on refined oil will be phased out from the current 5.4 percent in five equal annual reductions. Korea's 3-percent tariff on soybean flour and meal will immediately go to zero.

#### *The Trade Situation...*

Korea's soybean oil imports have increased five-fold over the last decade with Argentina now dominating the market. Korea's domestic crushing industry has been unable to compete with Argentine soybean oil even with a tariff of 5.4 percent. The United States has slipped from being the dominant soybean oil supplier to Korea to holding just a 13-percent market share in 2006. That 13-percent market share was the best for the United States in the past 3 years. U.S. As a U.S. export market in 2007, Korea remained one of our top 10 markets (number 6) for soybean oil. From 2005 to 2007, U.S. suppliers shipped an annual average of 35,000 tons of soybean oil valued at nearly \$25 million.

In 2007, Korean imports of U.S. soybean meal jumped over 900 percent to 123,000 MT, valued at nearly \$33 million. Still, South America and India dominate the Korean soybean meal market. The U.S. share of this market is only 6 percent.

However, the U.S. share of the Korean soybean flour market is about 6 percent. From 2005 – 2007, Korean imports of U.S. soybean flour averaged 1,220 MT, valued at nearly \$880,000. Chinese origin, non-GMO soybean flour makes up the vast majority of the market.

*The Current Market Access Situation...*

In August 2006, the Korean Soybean Processors Association filed an antidumping petition with the Korean Trade Commission (KTC) on soybean oil imported from the United States, Brazil, and Argentina. The KTC set tariffs ranging from 17.2 percent for the United States, 34.5 percent for Brazil, and 23.7 percent for Argentina. However, as of July 2007, the KTC preliminary determination revised downward the tariff rates to 4.69 percent for the United States and 21.07-23.48 percent for Argentina. Brazil was dropped from the antidumping investigation due to the low level of imports. A final determination is expected between August and September 2007.

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